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ABSTRACT

Three main aspects of the college cost debate are summarized: (1) the incomes of students and families as they relate to tuition increases (the ability to pay); (2) the cost to higher education institutions of providing an education; and (3) the implications of the increasing reliance on loans in student financial aid, particularly the Income-Contingent Loan Program. Chapter 1, "Whose Income Is Keeping up with College Costs? An Analysis of Trends in the Ability to Pay for College," by Carol Frances, summarizes a report on the relationship between tuition increases and income, which found that tuition has outpaced income by a considerable margin. Chapter 2, "College Costs: A Perspective from the Public Sector of Higher Education," (Richard Novak, Meredith Ludwig, and Carol Frances) examines the underlying causes of tuition increases and demonstrates that the fundamental cause is the decrease in the level of support for public institutions from public sources. Chapter 3, "Income-Contingent Loans: A student Life Indenture Program," by Durward Long, examines the most dangerous effect of increasing tuition and decreased ability of students to pay, i.e., student debt. The potentially dangerous impact of the Income-Contingent Loan Program is also discussed as the final step toward institutionalizing student debt. A summary of the Income-Contingent Loan Program is also provided. (KM)

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American Association of State Colleges and Universities

A Call for Clarity: Income, Loans, Cost

Edited by Lawrence Eiser

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Foreword

American higher education is currently enduring a period of unprecedented scrutiny of college costs. This is true for a variety of reasons, but primarily because college tuitions have skyrocketed in this decade. Parents, the media, legislators, and the general public have put increasing pressure on colleges to explain and justify their tuition charges. Many voices have been heard, but by now—on the national level at least—the college cost debate has been lost in rhetoric.

This study addresses such issues. It summarizes a variety of sources in a brief, readable format that answers fundamental questions about contemporary higher education finance. In support of its conclusions, detailed charts and tables are offered.

Chapter 1 summarizes an AASCU-commissioned report prepared by Carol Frances. The report focuses on the relationship between tuition increases and income: How fast have tuitions been rising and how well has income kept up? For most groups, unfortunately, it hasn't.

Chapter 2 examines the underlying causes of tuition increases from the public-sector perspective. What is driving up tuitions? What can be done about it? This section examines data gathered by Richard Novak and Meredith Ludwig of the AASCU staff, as well as Carol Frances and other sources. The chapter demonstrates that the fundamental cause for increased tuitions in the public sector is a documented decrease in support from public sources.

In Chapter 3, President Durward Long of Sangamon State University (IL) examines the logical effect of increasing tuitions combined with decreased ability to pay: debt. In particular, he studies the implications of the shift to loans as the primary means of student aid. What does this mean for students and colleges? He also analyzes the disastrous impact of the proposed Income-Contingent Loan program—the final push in institutionalizing debt as a primary means of financing higher education.

As a whole, the study addresses some of the most fundamental issues in the college cost debate. We at AASCU hope it can aid policy makers, higher education leaders, and the general public in the choices they must make concerning higher education. This study reinforces AASCU's long-held position that keeping tuition as low as possible helps keep higher education within reach of all who aspire to it.

Allan W. Ostar, President
American Association
of State Colleges and Universities

Chapter 1

Whose Income is Keeping Up with College Costs?

An Analysis of Trends
in the Ability to Pay for College

There is an important myth clouding the facts about college costs. It is cited in almost every discussion of college costs, most frequently by those who seek to make apologies for the losses in student aid, or who wish to make further cuts. The myth has many variations, but the basic version says that while tuitions have increased in recent years, so have incomes—to a somewhat proportionate degree.

The problem with the "increased incomes" argument is that income—real income—has been outstripped by tuition by a considerable margin. And for most people the difference has been substantial.

Accurate information about trends in the ability to pay for college is vital. In order to make informed decisions, students, families, colleges, legislatures, and government agencies—all the participants in higher education—need to know how well income is keeping up with tuition. Recently, the American Association of State Colleges and Universities and the American Association of Community and Junior Colleges commissioned Carol Frances to look at the facts in a realistic way. This chapter summarizes her findings.

Data

Is the income of families and students keeping up with college costs? The answer depends on four factors: Which students? What income? Which college costs? What time period?

Traditionally, in comparing income with college costs, a single-income figure has been used, usually family income or per capita income. But no single measure of income can accurately reflect the range of economic circumstances of today's increasingly diverse college student population.

Family or household income is generally the best measure of determining resources available to pay for college. However, the percentage of "traditional" college students—those of ages 18 to 24 who are dependents of husband-wife families—has declined to only about one-third of all students. The other two-thirds of the students are in altogether different economic situations, ranging from younger students in households with only one parent to older students working full time who have their own income but who also have dependents.

The best alternative is *not* to abandon the household as the economic unit of analysis by switching, for instance, to per capita income. A better approach is to refine and differentiate among the various types of economic units of which students might be a part. This can be done by characterizing the diversity of students' economic circumstances by first grouping students according to whether they are independent or dependent on their parents; then, the type of household they are in, the students' age, race, employment status, and stage in the earnings cycle. An estimate of the distribution of students by different economic resource categories based on their household type is shown in Table 1.

A much clearer picture of trends in the ability to pay for college is shown by examining the resources available to particular types of households as compared with the cost of enrolling in a particular type of college. These trends are compared with those in tuition at different types of institutions from 1980-85 in Table 2.

A comparison of this type, which factors in the diversity of students, economic circumstances, and institutions, is not usually used by policy makers because the complexity often leads to ambiguous results. But not here. For all of the 24 types of households considered and for each of the dif-

ferent types of institutions measured, income has *not* kept up with tuition increases. From 1980 to 1985 tuition increased, on the average, about twice as fast as income available to pay for college.

There are several additional facts supporting the conclusion that income is not keeping up with college costs:

- Recent economic trends show that income inequality is growing. There are greater numbers of rich and vastly greater numbers of poor people. This inequality is also growing based on race, gender, region, and occupation (Table 3).
- The number of poor people below the official poverty line has increased from 22 million in 1973 to 33 million in 1985, even though the government raised the official poverty line (Table 4).
- To keep pace with costs, more and more households are increasing the number of earners in the work force. In 1970 only 39 percent of the wives in husband-wife families worked; by 1985 the percentage had increased by more than a third to 54 percent (Table 5).
- The number of households headed by women tripled from 1970 to 1985. These households, with a disproportionately large share of the children approaching college age, have about half the income of households with married couples (Table 6).
- Savings as a percent of disposable income have declined significantly from the early 1970s to the mid-1980s. Savings declined from about 8 percent of income in 1970 to 5.1 percent in 1985 and 3.9 percent in 1986 (Table 7).
- The percentage of college students of ages 16 to 24 who work is increasing. In the fall of 1986, 43 percent of full-time students were employed and 87 percent of the part-time students were employed (Table 8).
- Since 1970, guaranteed student loan commitments have grown more than twentyfold, as measured by cumulative loan commitments, from under $3 billion to almost $68 billion (Table 9).

Methodology

This report's conclusion differs from previous studies in part because of its more accurate method of measuring income: an inflation-adjusted breakdown of median family income, based on different types of economic groups.

Median family income is based on a survey of households published by the Bureau of the Census that asks about monetary income. Another frequently used measure of income for analyzing trends in the ability to pay for college is average per capita income. Average per capita income is calculated by the Bureau of Economic Analysis by dividing aggregate national income, including estimates and imputations of nonmonetary income, by total population.

The differing calculations lead to very different results, which in turn can determine the outcomes of any study using them. It seems clear that per capita income is an inappropriate measure to use when determining students' ability to pay tuition. The per capita income figure is a calculated national average that does not yield any information about the *distribution* of income. This is significant because there has been a measurable increase in income inequality in the United States during the 1980s. Because of the larger number of low-earners, trends in the average per capita disposable income understate how many people are having difficulty paying for college.

Another factor that can skew the data is the use of nonmonetary income (i.e. Social Security, Medicare, and pension plans) in the calculation of per capita income. Nonmonetary income has increased drastically since 1970, but the figure is based on need or cost of living expenses—not a viable resource for college—and so should be excluded.

For example, in a comparison of trends in college costs with trends in per capita income, over a period such as 1970 to 1985, income keeps up with tuition if money plus nonmonetary income is figured. But the conclusion is the opposite when nonmonetary income is excluded: income has not kept pace with tuition. The increase in nonmonetary in-

come from 1970 to 1985 considerably overstates any increase in the ability to pay for college over that period.

Findings

Has income kept up with tuition? By any realistic measure, no. And for most income groups it's not even close.

Stripped of the "increased incomes" argument, policy makers must face a cold reality: college students and families watching helplessly as tuitions shoot past their ability to pay them, or worse, potential college students who simply can't afford to enroll.

Tables

Table 1

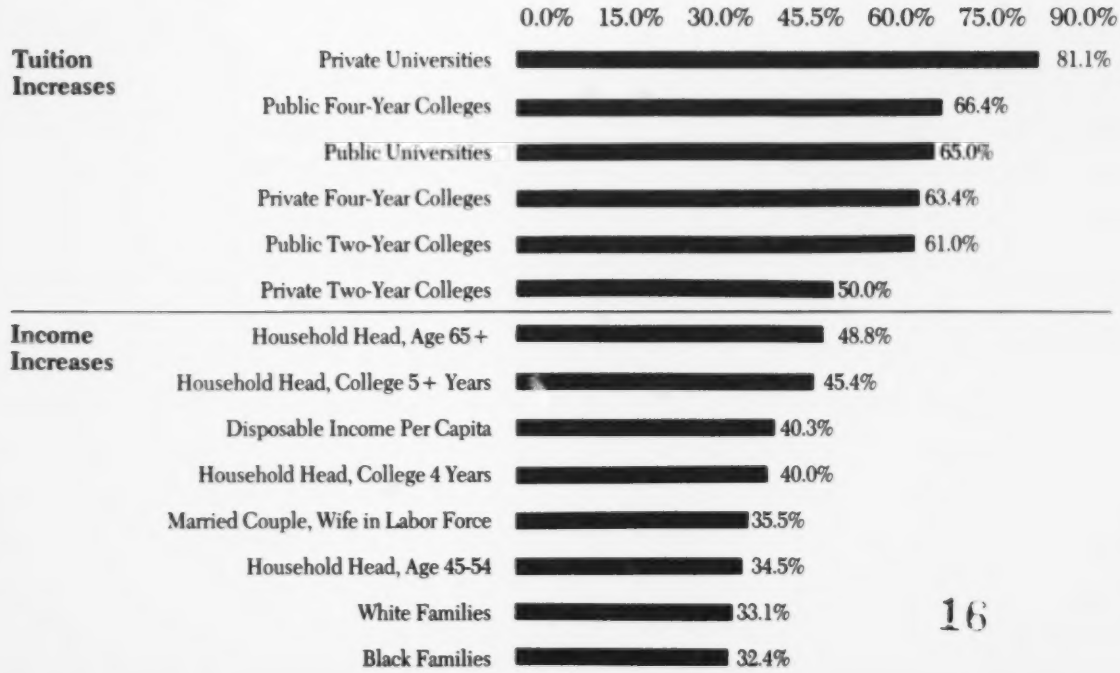
College Students Grouped by Economic Circumstances
Estimate Based on Dependency Status,
Household Type, and Age,
1985

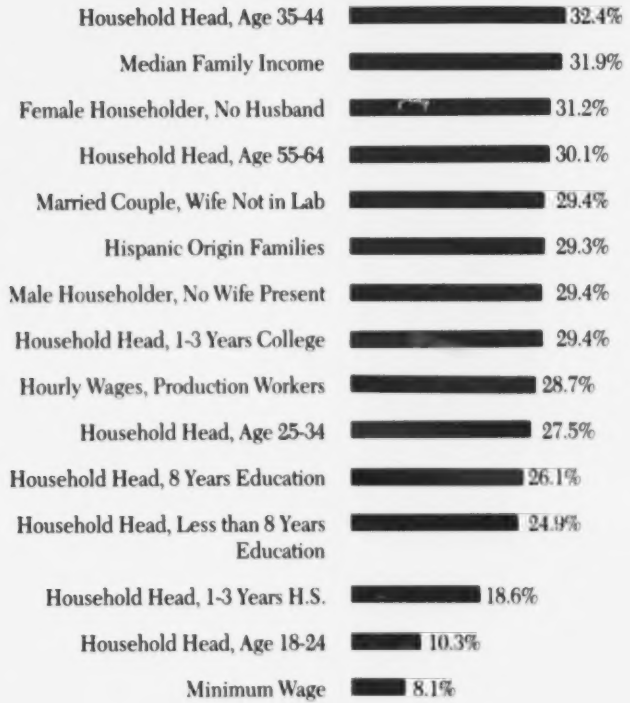
Student Household	*Number (Thousands)*	*Percent*	*Representative Income Series*
Total Enrollment	12,247	100.0	Median Family Income Per Capita Income
Dependent on Parental Family	6,270	51.2	
Married Couple			
Student, Age 18-24	4,078	33.3	Median Family Income Primary Families Dependents 18-24
Student, Other Age	698	5.7	Median Family Income Head Age 55-64
Male Head of Household	331	2.7	Median Household Income Male Head
Female Head of Household	1,163	9.5	Median Household Income Female Head
Independent	5,977	48.8	
Age:			
14-17	—	—	Minimum Wages
18-21	723	5.9	Private Sector Hourly Earnings
22-24	1,249	10.2	Graduate Assistant Salary
25-29	1,568	12.8	Assistant Professor's Salary
30-34	1,139	9.3	Median Family Income Head Age 30-34
35 and Over	1,298	10.6	Median Family Income of a Family Headed by Professional Worker

Source: Estimated by Carol Frances & Associates, based on enrollment and student aid data from the U.S. Department of Education and household data from the U.S. Department of Commerce.

Table 2

Comparison of Rates of Increase
in Income and Tuition, 1980-85





Source: Carol Frances & Associates

Table 3

Trends in the Distribution of Family Income, 1970-85, All Races

Total Monetary Income	*1970*	*1975*	*1980*	*1985*
Number of Familes	52,227	56,245	60,309	63,558
Percent Distribution	100.0	100.0	100.0	100.0
Under $ 2,500	1.5	1.3	1.5	1.9
$ 2,500-4,999	2.3	2.0	2.4	2.9
5,000-7,499	3.8	3.9	4.2	4.2
7,500-9,999	4.4	5.0	4.7	4.3
10,000-12,499	4.7	5.2	5.0	5.2
12,500-14,999	5.2	5.2	5.4	5.0
15,000-19,999	10.8	11.1	11.1	10.5
20,000-24,999	12.2	11.2	10.6	10.3
25,000-34,999	22.9	21.1	20.5	18.6
35,000-49,999	19.3	20.0	19.5	18.8
50,000 and over	13.0	13.9	15.1	18.3

Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Consumer Income, Series P-60, Number 154, "Money Income and Poverty Status of Families and Persons in the United States: 1985" (August 1986), p. 10.

Table 4
Poverty Trends

Year	*Number Below Poverty Level*		*Poverty Rate**	
	Total All Persons	*Related Children Under 18*	*Total All Persons*	*Related Children Under 18*
1959	39,490	17,208	22.4	26.9
1960	39,851	17,288	22.2	26.5
1961	39,628	16,577	21.9	25.2
1962	38,625	16,630	21.0	24.7
1963	36,436	15,691	19.5	22.8
1964	36,055	15,736	19.0	22.7
1965	33,185	14,388	13.9	20.7
1966	30,424	12,876	15.7	18.4
1967	27,769	11,427	14.2	16.3
1968	25,389	10,739	12.8	15.3
1969	24,147	9,501	12.1	13.8
1970	25,420	10,235	12.6	14.9
1971	25,559	10,344	12.5	17.2
1972	24,460	10,082	11.9	14.9
1973	22,973	9,453	11.1	14.2
1974	23,370	9,967	11.2	15.1
1975	25,877	10,882	12.3	16.8
1976	24,975	10,081	11.8	15.8
1977	24,720	10,028	11.6	16.0
1978	24,497	9,722	11.4	15.7
1979	26,072	9,993	11.7	16.0
1980	29,272	11,114	13.0	17.9
1981	31,822	12,068	14.0	19.5
1982	34,398	13,139	15.0	21.3
1983	35,266	13,326	15.2	21.7
1984	33,700	12,929	14.4	21.0
1985	33,064	12,483	14.0	20.1

Note: The poverty rate is the percent of the population group below the poverty level.

Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-20, Number 154.

Table 5

Trends in the Distribution of Families
by Number of Earners

Year	*Total Number Families*	*No. Earners*	*1*	*2*	*3*	*4+*
1970	51,948	4,691	19,252	20,443	5,221	2,340
1974	55,698	6,170	18,930	21,637	5,284	2,717
1975	56,245	6,788	19,466	21,377	5,348	2,455
1980	59,640	8,050	18,586	24,650	5,601	2,753
1981	60,312	8,526	18,555	24,856	5,563	2,812
1982	60,653	8,943	18,761	24,776	5,477	2,697
1983	61,243	9,266	18,459	25,437	5,517	2,564
1984	61,930	9,221	17,949	26,160	6,029	2,570
1985	62,636	9,162	18,217	26,350	6,338	2,568
Percent Increase:						
1970 to 1985	20.6	95.3	- 5.4	28.9	21.4	9.7
Percent Distribution:						
1970	100.0	9.0	37.1	39.4	10.0	4.5
1975	100.0	12.1	34.6	38.0	9.5	4.4
1980	100.0	13.5	31.2	41.3	9.4	4.6
1985	100.0	14.6	29.1	42.1	10.1	4.1

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, Number 154, *Money Income and Poverty Status of Families and Persons in the United Status: 1985*, Washington, D.C.: U.S. Government Printing Office.

Table 6

Trends in Household Composition, 1970-86
(Numbers in Thousands)

Type of Household	*1970*	*1986*	*Percent Increase*
Total	63,401	88,458	39.5
Family Households	51,456	63,558	23.5
Married-Couple Family	44,728	50,933	13.9
Male Head of Family	1,228	2,414	96.6
Female Head of Family	5,500	10,211	85.7
Nonfamily Households	11,945	24,900	108.5
Living Alone	10,851	21,178	95.2
Male Head of Household	4,063	10,648	162.1
Female Head of Household	7,882	14,252	80.8

Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports,* "Household, Families, Marital Status, and Living Arrangements: March 1986" (Advance Report). Series P-20, Number 412 (November 1986).

Table 7

Trends in the Savings Rate
Personal Saving as a Percentage of Disposable Personal Income, 1970-85

1970	8.1
1971	8.5
1972	7.3
1973	9.4
1974	9.3
1975	9.2
1976	7.6
1977	6.6
1978	7.1
1979	6.8
1980	7.1
1981	7.5
1982	6.8
1983	5.4
1984	6.3
1985	5.1
1986	3.9

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts, and Survey of Current Business* annual supplements.

Table 8

Employment Status of College Students, Ages 16-24
October 1986

			Employed			
	Total	*In the Labor Force*	*Total*	*Full Time*	*Part Time*	*Unemployed*
		Number				
Enrolled in College	7,643	4,217	3,837	1,130	2,706	380
Full Time	6,393	3,067	2,747	346	2,401	319
Part Time	1,249	1,150	1,089	784	306	61
		Percent				
Enrolled in College	100.0	55.2	50.2	14.8	35.4	5.0
Full Time	100.0	48.0	43.0	5.4	37.6	5.0
Part Time	100.0	92.1	87.2	62.8	24.5	4.9

Source: U.S. Department of Labor, *Employment and Earnings*, November 1986.

Table 9

Trends in Guaranteed Student Loan Activity

	New Loan Commitments			Cumulative Commitments Since Inception	
Fiscal Year Ending	*Average Size of New Loan Commitments*	*Number of New Loan Commitments*	*Total Amount Of New Loan Commitments*	*Number*	*Total Amount*
		(Thousands)	*(Millions)*	*(Thousands)*	*(Millions)*
1967-70	$ 897	2,485	$ 2,230	2,485	$ 2,230
1971	998	1,017	1,015	3,502	3,245
1972	1,061	1,201	1,274	4,703	4,519
1973	1,137	1,030	1,171	5,733	5,960
1974	1,215	938	1,140	6,671	6,830
1975	1,310	991	1,298	7,662	8,728
1976*	1,417	1,298	1,828	8,960	9,958
1977	1,580	973	1,537	9,993	11,493
1978	1,805	1,085	1,958	11,018	13,451
1979	1,976	1,510	2,984	12,528	16,435
1980	2,092	2,314	4,840	14,842	21,275
1981	2,209	3,529	7,794	18,371	29,069
1982	2,234	2,746	6,135	21,117	35,204
1983	2,266	2,885	6,537	24,056	41,875
1984	2,312	3,247	7,506		
1985	2,305	3,631	8,372		
1986	2,360	3,413	8,055		
		With PLUS Loans			
1981	2,210	3,540	7,824	18,382	29,099
1982	2,238	2,788	6,238	21,170	35,307
1983	2,279	3,039	6,928	24,209	45,265
1984	2,326	3,403	7,916	27,612	50,131
1985	2,324	3,823	8,884	31,435	59,060.
1986	2,375	3,610	8,575	35,045	67,642

Source: 15-month period beacuse of the shift of the federal fiscal year's end from June 30 to September 30, 1976.

Chapter 2

College Costs:

A Perspective from the Public Sector of Higher Education

Chapter 1 of this booklet showed how income has not kept up with tuition increases. In fact, tuition has outpaced income by a considerable margin for most families. Chapter 3 examines the result: greater numbers of students and families digging themselves deeper into debt. All involved in higher education are asking the same questions: Why? Why are tuitions rising so fast? Why is paying for a college education becoming increasingly burdensome on families and students? This chapter addresses those questions.

The first point to be made from the public-sector perspective is that tuition at state colleges is not as high as most people think. In a recent *Chronicle of Higher Education* survey, a random sample of the public guessed that the actual cost to attend a public college for one year was $9,120. In fact, average actual cost to attend a public four-year institution for one year (including tuition and fees, room and board, transportation, and expenses) is $5,789. Moreover, the average annual tuition at all public institutions is only $1,100. In general, public colleges have remained affordable for most families. The problem, however, is that tuition at both public and private colleges has increased twice as fast as inflation since 1980. (See Figures 1 and 2.) And people want to know why.

Thus far the debate has generated little useful data. The present data focus primarily on costs incurred by colleges to educate students. Focusing only on costs, however, will not lead to holding down tuitions because tuition is not solely a function of costs. Setting tuition is the "budget balancer"—the last step in the budget process. Every item in

the budget, ultimately, affects tuition. Cost containment alone is not the answer because increasing costs are not the sole problem. In fact, education costs have remained relatively stable since 1980—the period when tuitions have increased fastest. (See Figure 3.)

The major cause for rising tuitions is shortfalls in revenues from public sources. This chapter will show that revenues from federal, state, and local governments have not kept up with costs. When revenues from public sources dwindle, tuitions are raised to make up the difference. As a result, more of the costs have been shifted to the students and families through higher tuitions.

Cost

A number of cost factors are cited by public colleges as contributing to tuitions rising twice as fast as inflation since 1980. However, it is unfair to compare tuition increases with the traditional measure of inflation, the consumer price index (CPI), because it only measures the costs of goods that average families buy. The costs of goods colleges must purchase to deliver an education have increased at a much faster rate than CPI goods. These costs have been measured using the Higher Education Price Index (HEPI), which has increased 52.2 percent since 1980—significantly higher than inflation. (See Figure 3.)

The HEPI is made up of several factors such as faculty salaries and benefits, utilities, books, supplies, educational equipment, and services. If one wished to control tuition by attempting to contain the individual cost components of delivering an education, it would be disheartening to find that the major component, faculty salaries, realistically cannot be cut. Faculty salaries can constitute up to 60 percent of a college operating budget. Salaries have been increased since 1980 to make up for losses during the last decade; however, they have still not caught up with losses from inflation. Today, a new college instructor will earn less than the median family income, after a decline of about one-fifth in relative economic well-being. (See Figures 4 and 5.)

As the nation's economic base shifts from manufacturing to information and knowledge, university faculty members will play an even more vital role in maintaining the nation's competitiveness. They must research, create, refine, and teach about our expanding knowledge base—the new raw material of our economy. This will surely require increases in faculty financial support.

Spiraling insurance costs are another troublesome factor facing state colleges. According to the 1986 edition of *Student Charges at Public Institutions*, a joint report from AASCU and the National Association of State Universities and Land-Grant Colleges, cost increases for insurance at public colleges have ranged from 90 to over 100 percent over the last two years.

The same survey also revealed a striking 65 percent of respondents facing entirely new categories of costs. Forty-two percent of these were related to purchases of new computer hardware and software. Increases in computer acquisition costs varied from 20 percent to more than 100 percent.

Institutionally funded student aid is also increasing college costs. Since 1980, the amount of federal student aid paid to students has dropped dramatically. (See Figure 6.) To make up for these losses, many institutions have increased their own student aid programs. This is more commonly a problem at independent colleges; however, public colleges, have also had to step up their efforts to target and reach the most needy students.

Still another problem area is costs associated with expanded services. Created as colleges of *access*, state institutions have had to expand their services in response to new demands. Services to foster access to today's students, such as career counseling, remedial education, and computer-aided instruction, increase the cost of education.

Revenues

From 1979 to 1985, total college and university expenditures increased 62 percent. College revenues increased over the same time period at the same rate, 61.9 percent.

The increase in total revenues matched the increase in total expenditures, as indeed it should. However, the revenues from public sources over the same period did not increase nearly as fast as costs. State and local revenues increased 50 percent and federal revenues increased only 33 percent. These sources have simply not kept up.

To balance their budgets, universities were forced to increase tuition and other private revenues by 78 percent. Institutions had to raise tuition by considerably more than cost increases to make up for the shortfalls from public sources. (See Figure 7.)

The increase in tuition has shifted a greater burden for paying the cost of education from the public sector on to the students. As a result, increasing numbers of students have been forced to borrow greater amounts to finance their education. (See Figure 8 and Table 9.) The implications of student-deficit financing of higher education are examined in Chapter 3 of this study.

The decreased revenue from public sources has been quite strongly felt by colleges in the public sector and is reflected by increased tuitions. However, in examining these increases, it is important to note that public colleges do not set their own tuition rates. Tuitions are intricately linked with the state budgeting process. At most state colleges, tuition rates are set with the approval of governing boards and state legislatures. Tuition revenues are returned to a general state fund from which institutions receive a proportionate share based on criteria such as enrollments, costs, and institutional mission.

There are four primary components of state college revenues: state appropriations, tuition and fees, auxiliary enterprises, and voluntary support. Each component of affects the others. Table 10 summaries changes in the proportion of revenues each of these sources contributes for all of public higher education.

The clearest relationship in state college revenues is between tuitions and appropriations. When state appropriations decrease, tuitions usually increase. This relationship is examined in Table 11, which compares the 30 states with

the highest and lowest percentage increase in state appropriations and the resulting increase in the tuition factor. (The tuition factor is the share of the cost of higher education being borne by students.) In each state, as appropriations fail to keep up with costs, a greater proportion of those costs shifts to the student. (See Table 11.)

State colleges and universities are in a unique position in American higher education. They were established to ensure higher education opportunity for all citizens, regardless of ethnic, geographic, or economic circumstance. Thus, government sources contribute approximately 50 percent of the operating funds for public colleges.

However, the unique position of these institutions can also be a difficult one. They are caught in the middle of the political process. Often public colleges are told—midway into the school year—that the state has to lower its revenue projections. This results in midyear budget cuts for public higher education. Last year an AASCU survey found this phenomenon, which can wreak havoc on tuition policy, occurring in 17 states.

Public colleges are more clearly affected by the external factors that strain the economy in general. The vicissitudes of state economies, the debt burden assumed to pay for capital improvements, and unfunded liabilities of faculty retirement systems are looming problems for them. They are also facing the need to provide more support for students as other sources of aid decline.

Implications

For public institutions, the college cost debate is not about "costs" at all. During this decade, when tuitions have skyrocketed, college costs have increased substantially. However, the rate of increase has been no faster than the rate during the 1970s when tuition increases were lower. In effect, costs have remained relatively stable. Further, there is good evidence that state colleges and universities, in par-

ticular, are doing an excellent job of providing high quality education at cost-efficient rates.

The cost debate is actually about declining revenues. More precisely, the revenues state colleges need and depend on from the federal, state and local governments. The decline in public support has increased the burden on students and families who must pay higher tuitions. To relieve this burden, public support of state colleges must be increased at a rate commensurate with cost increases.

Table 10

Source of Current Fund Revenues
at All Four-Year Public Institutions

	Percentage Distribution Fiscal Years				
	80	82	83	84	85
Tuition and Fees	12.5	13.5	14.5	14.9	14.1
State Government Appropriations	44.8	43.8	43.3	42.8	42.4
Auxiliary Enterprises	10.5	10.8	10.9	10.9	10.2
Private Gifts, Grants	2.5	2.7	3.0	3.0	3.0

Source: Center for Education Statistics

Table 11

Comparison of States with the Lowest and Highest Percentage Increases in State Appropriations From 1977-78 to 1985-86

Lowest Percentage Increase in Appropriations

State	*Increase in State Appropriation*	*Change in Tuition Factor*
Pennsylvania	60%	+17%
South Dakota	61%	+ 2%
Washington	67%	+ 3%
Oregon	72%	+ 4%
Idaho	73%	+ 2%
Wisconsin	77%	+ 4%
Nebraska	84%	+ 5%
Michigan	84%	+13%
Iowa	86%	+ 9%
West Virginia	88%	+14%
Missouri	90%	+ 7%
Indiana	90%	+13%

Highest Percentage Increase in Appropriations

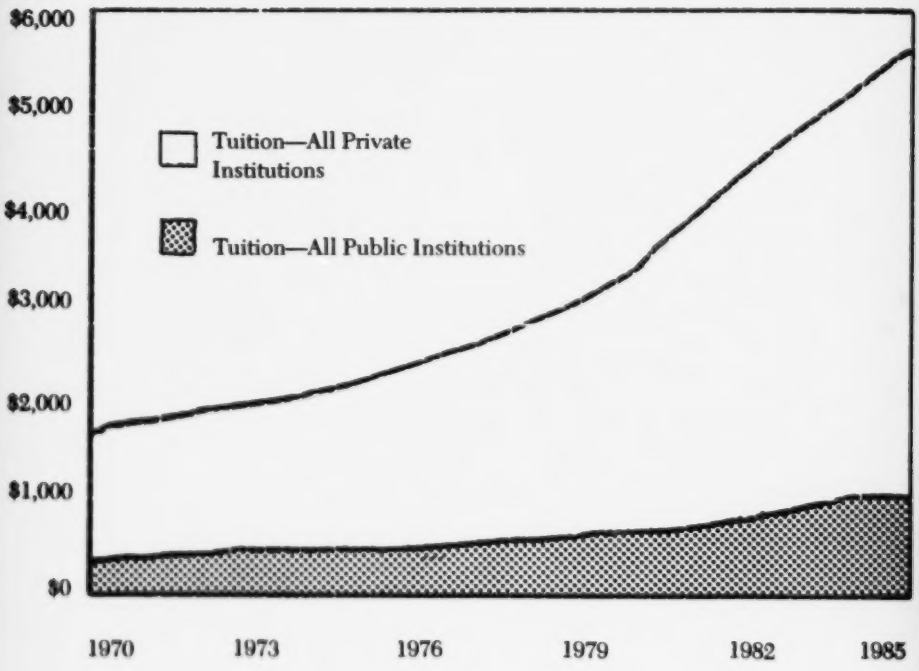
State	*Increase in State Appropriation*	*Change in Tuition Factor*
Alaska	324%	– 5%
Massachusetts	224%	+ 2%
Oklahoma	198%	–13%
New Mexico	181%	– 2%
Arkansas	168%	+ 1%
North Carolina	168%	– 8%
Wyoming	164%	– 9%
Tennessee	164%	– 1%
Louisiana	162%	+ 5%
Virginia	158%	+ 2%
Florida	156%	– 9%
Utah	150%	– 0–

Source: M.M. Chambers, Appropriations, 1985-86.
Kent Halstead, Research Associates, State Profiles: *Financing Public Higher Education*, 1985-86.

Figure 1

Trends in Tuition and Required Fees in Public and Private Institutions

Figure 1A

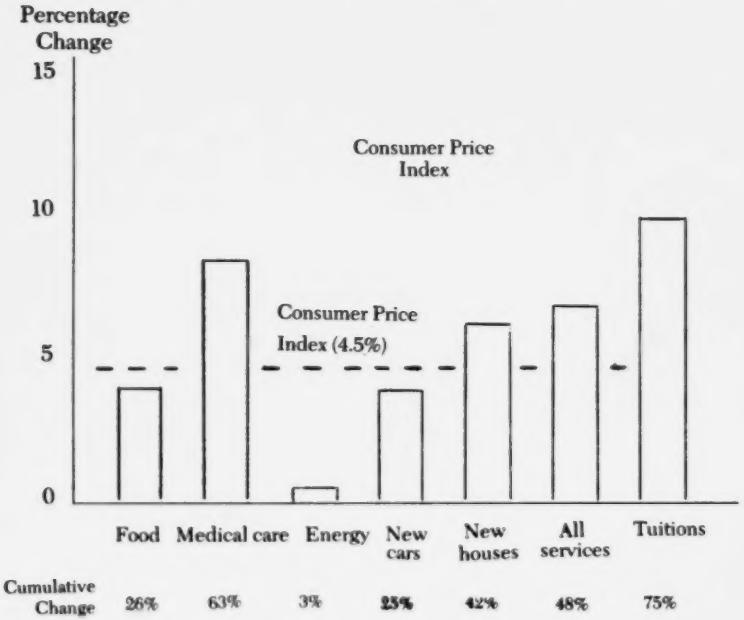


Source: U.S. Department of Education
Center for Education Statistics

Carol Frances & Associates

Figure 1B

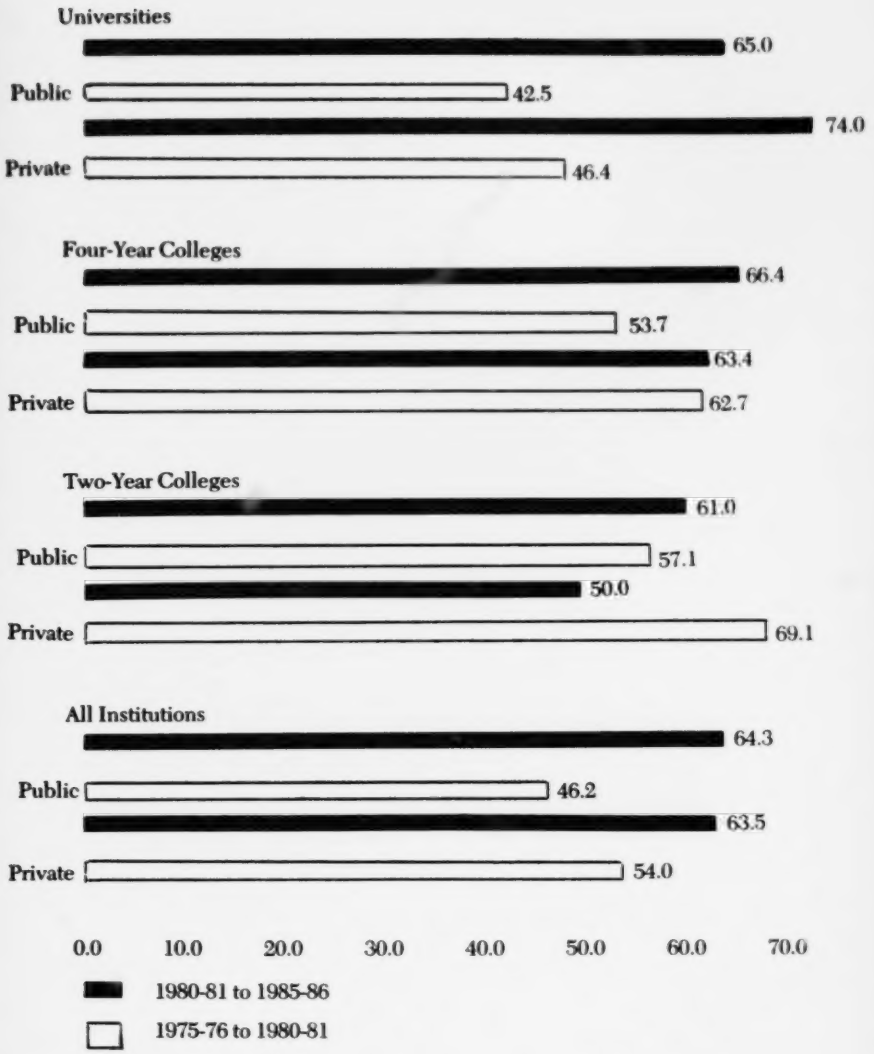
Average Annual Change in Prices of Selected Goods and Services, 1980-86



Source: Arthur Hauptman & Terry Hartle
"Tuition Increases Since 1970: A Perspective"

Figure 2

Percent Increase in Tuition and Required Fees



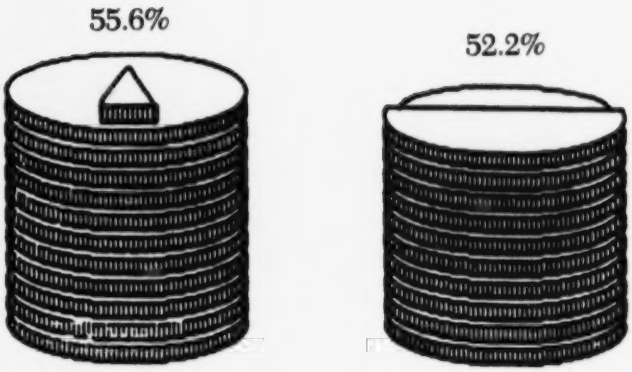
Source: Carol Frances & Associates
Based on data from the U.S. Department of Education Center for Education Statistics.

Figure 3

Higher Education Price Index

Percent Increase:

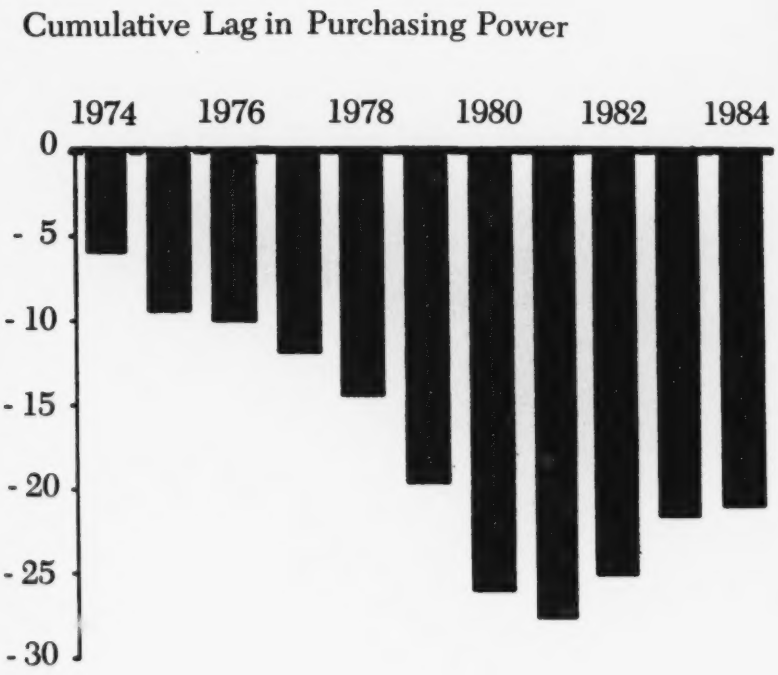
1974-1980 Compared With 1980



Source: Carol Frances & Associates

Based on data from the Higher Education Price Index, prepared and published by Kent Halstead, Research Institute.

Figure 4
Cumulative Lag in the Purchasing Power
of Faculty Salaries

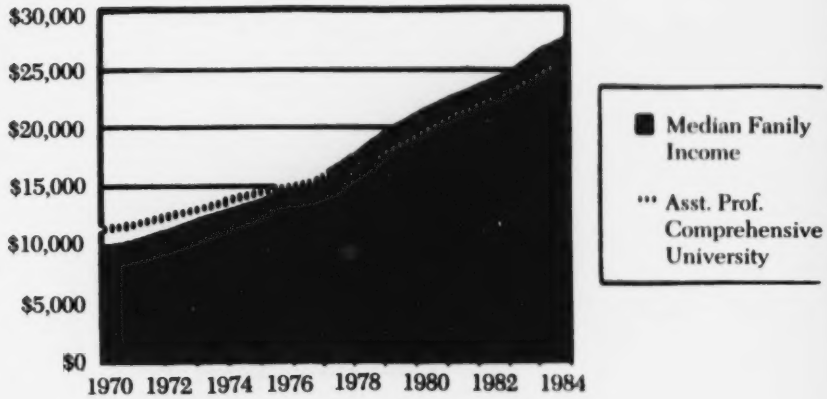


Note: The cumulative lag in purchasing power is calculated as the difference between the rate of increase in faculty salaries and the rate of increase in the consumer price index.

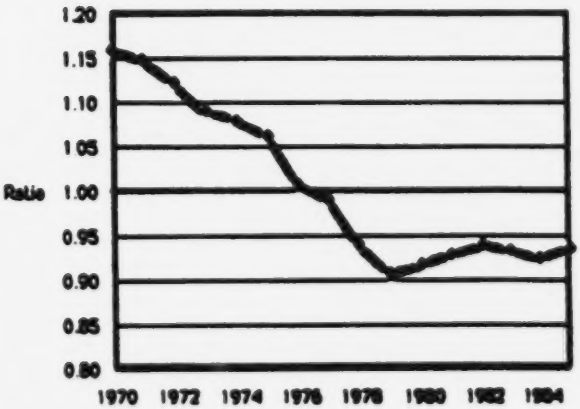
Source: Carol Frances & Associates.
Calculated from data from the American Association of University Professors, U.S. Bureau of Labor Statistics.

Figure 5

Assistant Professors' Salary (All Institutions)
Compared With Median Family Income



RATIO OF ASSISTANT PROFESSORS' SALARY
TO
MEDIAN FAMILY INCOME
Median Family Income = 100



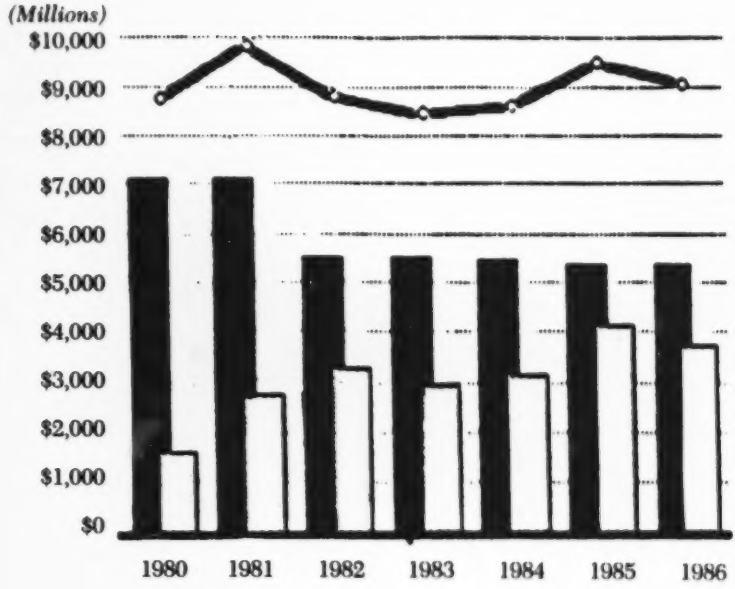
Source: Carol Frances & Associates

Figure 6

Trends in Federal Student Aid

Current Dollars

1980-86



Note: Includes private loan funds provided to students by banks and other lenders under the Guaranteed Student Loan Program.

Source: Carol Frances & Associates
Based on data from the U.S. Department of Education, Center for Statistics; Office of Management and Budget; Veterans Administration; and The College Board.

Paid to students

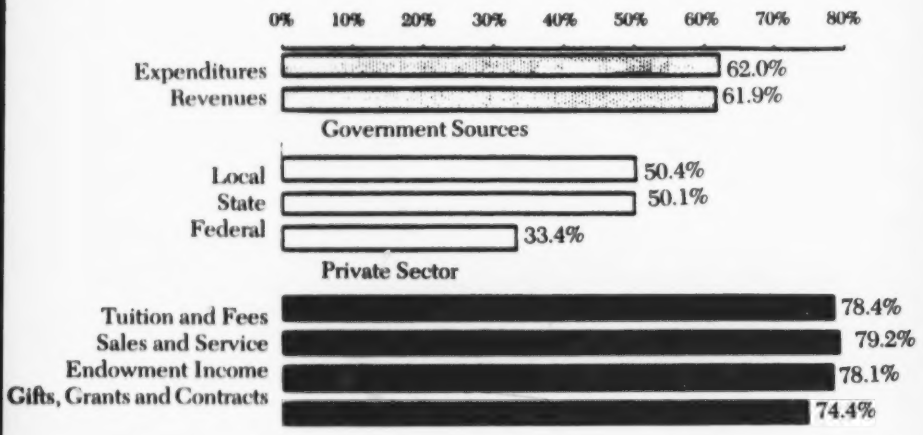
Paid to banks and other lenders

Total

Figure 7

Trends in Current Fund Revenues (All Institutions)

1979-80 to 1984-85

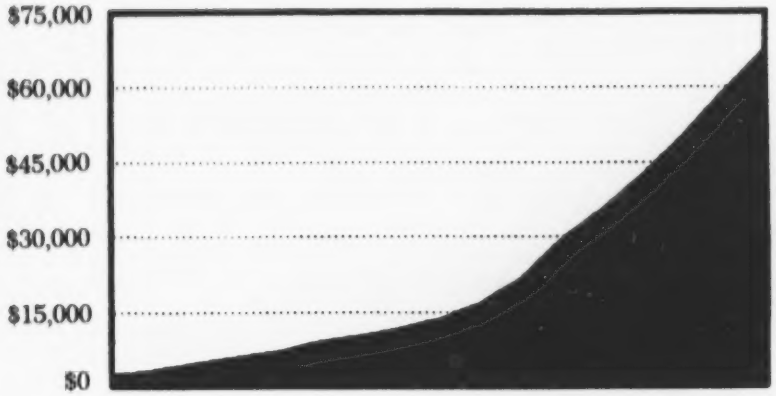


Source: Carol Frances & Associates
U.S. Department of Education, Center for Education Statistics.

Figure 8

Student Loan Commitments

Cumulative Commitments Since Inception of the Program, 1970-86



Source: Carol Frances & Associates and U.S. Department of Education.

Chapter 3

Income-Contingent Loans:

A Student Life Indenture Program

Durward Long, President
Sangamon State University (IL)

During the past decade there has been a major shift in the fundamental philosophies and values underlying the financing of American higher education. The shift has been in the form of a gravitation away from the low or no tuition policy, and more recently away from grants and work study, toward loans as a primary means of financing higher education. Although the shift has occurred slowly, it has happened without thorough policy deliberation or impact assessment. A directional change of this magnitude will have a substantial long-term impact on the nation's ability to continue its political, economic, and social progress as a democracy through education and, therefore, should be carefully and thoroughly debated as a policy issue.

Before examining the policy implications of the loan-based model of financing higher education, it may be helpful to take a quick look at borrowing trends.

- Undergraduate borrowing has increased over the years between 1975 and 1985 as follows:

	All Schools	*Four-Year Public*	*Community Colleges*	*Private*
Number of loans	+253%	+171%	+465%	+321%
Amount loaned	+489	+410	+985	+470
Average loan	+ 67	+ 88	+ 92	+ 35

- In 1985-86, 3.6 million students borrowed $8.3 billion in Guaranteed Student Loans (GSLs).

- The average GSL has increased (in current dollars) from $998 in 1970-71 to $2,277 in 1985-86, and the number of loans has increased from a little more than a million to over 3.6 million.
- National Direct Student Loans have increased from 452,000 in 1970-71 to 854,000 in 1985-86, with the average loan increasing from $532 to $880 in current dollars.
- Outstanding GSLs have increased from 7.5 billion in 1978 to 36.8 billion in 1985—390 percent—while mortgage debts have increased only 95 percent during the same period and consumer installments by 10 percent.
- Also in 1985-86, other smaller federal loan programs accounted for about $800 million more.
- The average 1985-86 debt amount for *undergraduates* who borrow from all sources was as follows:

	Type of Institution			
	Private Institution		*Public Institution*	
	Two-Year	Four-Year	Two-Year	Four-Year
After two years	$4,461	$4,340	$3,303	$3,217
After four years	*	$8,950	*	$6,685

- The average debt from all sources at the end of four years at public four-year institutions was between $4,000 and $14,999 for 84 percent of the student debtors; at private four-year institutions, slightly more than 92 percent fell within that range.
- Within the income distribution of GSL borrowers, both financially dependent and financially independent students with low incomes were high among the borrowers.

Income	*Financially Dependent Students*	*Financially Independent*	*All Borrowers*
Below $15,000	34.5%	48.9%	39.5%
15,000-29,000	28.6	24.4	27.1
30,000-44,999	22.0	8.0	17.1
45,000-59,999	7.8	2.0	5.8
60,000-74,999	2.1	0.4	1.5
75,000 and over	0.3	0.1	0.2
Unknown	4.7	16.4	8.8

Clearly, loans have become a primary means of financing higher education, especially among financially independent students with low incomes. This change has resulted from a variety of forces and trends. There has been a gradual movement among many policy makers and even within the public toward the view that higher education primarily benefits the recipient in her or his lifetime earnings capacity and is therefore a consumer or "investment" item. Many advocates of this view also assert that even the non-income-related benefits are merely consumer items. Accompanying this interpretation is the political philosophy that supports levying costs on users of public services who benefit the most from them. The rationale is further advanced by the assertion that statistically disposable income is growing and adequate for the support of costs of higher education by the users. When one applies to this matrix of views the reality of the increasing costs of government, the continuing growth in enrollment, and needs for additional funds, it is understandable that some officials have permitted, even supported, a policy "creep" toward a greater reliance on loans and more support for the "higher education as consumption" view.

This change in federal practice and the accumulated changes in states have fueled an increase in loans from 452,000 students who took out loans in 1970-71 to 854,000 *new* loans in 1985-86, with the average loan increasing from $532 to $880 during that period. In addition, 3.6 million students borrowed $8.3 billion in Guaranteed Student Loans, and smaller federal loans amounted to $800 million more. These data are by no means complete for the magnitude of student loans because there is not total and accurate assembly of precise numbers. We do know, however, that student loans have become the primary form of student aid—in a very short time—and without an assessment of the impact or any policy deliberation. Of the 14 million students enrolled annually in public, private, and proprietary postsecondary institutions, the evidence suggests that one-third borrow in order to attend.

The fiscal 1988 Department of Education budget proposal represents a final push of the pendulum toward defining higher education as a consumer item. It requests a decrease in student aid funding of 46 percent and replaces funding for current loan programs with a massive infusion of funding to the pilot income-contingent loan program (ICL). The proposal ignores almost completely the notion that higher education is a social investment in the national interest through the development of human capital. Moreover, it seems to ignore the degree to which this approach would be in conflict with the Administration's emphasis on strengthening the family as an institution, and the work ethic as a priority value.

The most negative characteristic of the FY 88 budget is the unexpected change in emphasis of federal student aid. The proposal suggests funding the ICL at the level of $600 million in FY 88, even though the ICL pilot program, designed to test the program, only began in FY 87. The sample institutions participating in the pilot have only recently been selected. ICL, the centerpiece of the federal government's "reform" of student aid, combines the reduction of federal subsidy for interest on student loans by placing them in the private market place with an increase in the amount of loans for which students are eligible. Repayment is to be based on the amount of income the student earns after graduation or withdrawal from college. (A summary analysis of the ICL program is appended to this chapter.)

The ICL proposal contains the following provisions:

- Increases borrower interest rates on loans (Treasury Bill rate plus 3 percent, which at current rates would make it about 9 percent),
- Eliminates in-school interest benefits (interest accrues while in school, during the grace period and during any deferment periods),
- Imposes a borrower's fee to cover defaults,
- Ends *new* National Direct Student Loans and requires repayments to be recycled under ICL guidelines,
- Recommends an eventual total loan maximum as high as $50,000, and

- Links payment of the loan to income, with payments not to exceed 15 percent of monthly income.

The title "Income-Contingent Loan" conveys only one aspect of the new proposal. Indeed, the notion that the approach is new is itself misleading. Income-contingent repayment plans have been proposed in various forms since the 1950s. When these ideas first surfaced, the emphasis was on switching from grants-in-aid to a massive expansion of loans. Some critics, more than a decade ago, styled the suggestion as a Student Life Indenture Program (SLIP). SLIP, then as now, is predicated on the policy assumption that higher education primarily benefits the recipient as a means to an increase in lifetime income. The non-income-related benefits, too, are merely other forms of consumer consumption. Although most states and Congress rejected this interpretation of higher education at the policy level, the increasing costs of government, the federal deficit, and additional demands on government funds have permitted the policy behind SLIP to become a dominant one in contemporary higher education finance.

The proposal for a change to make student loans simply another consumer loan similar to a home mortgage, without policy deliberation about the impact of that change, can only worsen the higher education environment. This chapter provides some information and a perspective for such a deliberation.

Several fundamental concerns are stimulated by the context out of which the income-contingent loan emphasis has emerged. First is the philosophical change that emphasizes higher education primarily as a personal investment in greater lifetime economic benefits. Toward this end, Secretary of Education William Bennett has been emphasizing the fact that college graduates earn, on the average, $640,000 more over the course of their lives than do non-graduates. Not only does this approach obscure the many important benefits to society that result from a college-educated population, including increased tax revenues, but it also obscures the fact that the figure of $640,000 in additional individual income includes a good number of profession-

als who earn that amount several times over in their lives. It also includes a greater number who earn a good deal less.

A second major concern about the "increased incomes" argument is whether such a statistic, if true today, will remain so for the future in light of the fact that most new jobs are in low-paying fields. *American Demographics* indicates that only 3.7 percent of all households had an income of over $75,000 and only 11.7 percent of all college graduate households were in that income bracket. Interestingly, 5.9 percent of the college graduate households earned $10,000 or less.

Household Income	*All Households*	*College Graduate Households*
Under $10,000	21.1%	5.9%
10,000-14,999	12.2	6.0
15,000-19,999	11.4	7.8
20,000-24,999	10.4	8.6
25,000-34,999	16.9	18.0
35,000-49,999	15.3	22.5
50,000-74,999	9.0	19.5
75,000 and over	3.7	11.7

There is reason to believe the income situation will worsen for college graduates. A study prepared for the Joint Economic Committee in 1986, entitled "The Great American Job Machine," found that:

- Between 1979-84, the number of workers with earnings as high or higher than the 1973 median ($14,042 in 1984 dollars) actually declined by 1.8 million while workers earning less than the 1973 real median increased by some 9.9 million.
- Of the 8 million new jobs created between 1979-84, 58 percent paid no more than $7,012 as compared with less than 20 percent during 1973-79. There was a total decrease of 5.5 percent in jobs above $28,000 between 1979-85 as compared with an increase of nearly 16 percent between 1973-79.

All of this seems to lead to the inescapable conclusion that lower-paying jobs are more available among the new jobs being created and that middle- or higher-strata income

jobs are less available. Data for 1979-84 show that persons with "some college or more" had a 27.8 percent share of the low-stratum jobs as compared with 55.5 percent in the middle stratum, and 16.7 percent ranked in the high-income stratum in 1979-84 as compared with 19.9 percent in the high-income stratum in the earlier period 1973-79. These data must be considered in relation to the proposal for higher interest-bearing loans to be paid by percentage of income.

A third major concern about the trend toward loans and away from public support in grants and institutional support is the fear that the availability of loans will tend to foster an environment in which the costs of higher education will be increased to the student more than through other means of financing. The much-criticized increases in tuition in colleges and universities have resulted partly from abandoning the low-tuition approach and diminishing the level of public support. The Income-Contingent Loan program will add new fuel to that trend, especially if state officials assume that money from tuition and loans will permit less from state coffers.

In addition to the substantive philosophical assumptions underlying the ICL program, there are some practical problems as well. The assumption that college graduates will be able to afford a payback of at least 15 percent of income without serious consequences is predicated on a level of income that will permit retiring the loan in a reasonable period of time with a nonthreatening debt-to-income ratio.

Congress shared the concern that the debt-to-income ratio of consumers in the economy should be addressed in the 1986 tax reform and, as a result, took steps to reduce consumer interest payments as deductibles for income tax purposes. From the first quarter of 1983 to the first quarter of 1987, consumer debt grew from $427 billion to $726 billion. Total debt service of consumers, while stabilizing at around 25 percent of income for a long time, recently climbed to 32 or 33 percent. In April 1987, the debt-to-disposable-income ratio peaked at 19.4 percent.

In 1987, *American Demographics* reported consumer debt as a percentage of household income by the age of the head of the household for the year 1986 as follows:

Age Group	*Consumer Debt as a percentage of income*
Under 25	10%
25-34	15
35-44	13
45-54	10
55-64	9
65 and over	2

The percentages are highest in the 25-34 and 35-44 age brackets, the age at which most graduates would also be likely paying on loans secured for higher education and at which time the needs of the family, especially if there are children, would be increasing. If one were to add an additional 15 percent to the figures above to retire student loans, one easily sees the impact.

Given the likelihood that under present conditions, costs for college will continue to rise, and with the availability of great loan amounts available, students will be pressured to increase debt without thorough awareness of the borrowing costs. Since there are few effective debt controls, many students will probably borrow beyond their ability to manage, leading to more defaults on student loans and other consumer loans. The recent changes in the federal tax law and the likelihood of many states adopting nondeductibility for interest on student loans make the costs of college more expensive to students and greater than they are apt to realize while attending college.

The debt service burden will also be greater for graduates who choose occupations that pay below the median income level. There are clear differences of income among the various occupational lines, and while there is not yet any concrete evidence that indicates students' occupational choice is being influenced by loan debt, students tend to be practical about such decisions. It is likely that as loan debts rise, there will be some influence exerted on student

choice. Since graduate school and postbaccalaureate professional education cost considerably more than undergraduate studies, borrowing needs and limits are higher. Students may shy away from pursuing the advanced degrees and education that the nation needs and focus primarily on high-income-producing fields. In addition, while costs may be as much as double for many of the graduate and postbaccalaureate fields, the projected income is not likely to double, especially during the first 15 years.

There is also concern that schools with high prestige for placement will benefit at the expense of the other colleges and universities if students conclude that they must graduate from institutions whose names carry more "prestige" and, therefore, more earning power to pay their debts. Signs of just such shifts are appearing.

Another important concern about the replacement with loans of other forms of support is the potentially negative impact on minorities and women, especially single heads of households. Since education costs are the same to all persons—men, women, minorities, nonminorities—borrowing needs should be approximately equal if the distribution of need is approximately the same among all groups. However, needs for borrowing are not equal for men and women or for minorities and nonminorities, making the distribution of debt unequal and the earning potential for payback also unequal. Since women and/or minorities earnings are typically less, the loan/income ratio will be higher, and the debt service burden will be greater. This is likely to lead to a higher percentage of defaults.

The income-contingent loan approach seems to conflict with the historic values of supporting strong family units and the work ethic. The impact of low-paying jobs and high debt service will place additional strain on individuals, marriages, and families, especially if both spouses have loans to repay. Potential costs of having children will discourage family units, and if loan repayment is extended into the home mortgage range of 20-30 years, the ability of parents with such debts to assist their own children with college expenses will be considerably less. Also, the proposal to replace

college work-study with income-contingent loans seems inconsistent with the Administration's emphasis on the work ethic.

The income-contingent loan scheme is seen by its advocates as a genuine reform of higher education finance that reduces the direct budget outlay of the federal government. It has major flaws, however, in its philosophical and economic assumptions, and its potential impacts seem not to have been fully considered. Therefore, serious thought should be given to alternatives with more potentially beneficial results.

The Income-Contingent Loan Program:

A Summary

The ICL program

1. Reflects fundamental changes in philosophical assumptions underlying federal investment in students pursuing higher education:
   - in a shift to loans as the primary method of student support, and
   - in a shift from viewing higher education as an investment in human capital to an assumption that higher education is a consumer investment for economic returns.
2. Increases costs of education to the borrower:
   - by increasing interest rates,
   - by charging the borrower interest from date of loan instead of when leaving college (graduation or otherwise),
   - by imposing borrowers fee to cover defaults, and
   - by increasing the period of repayment, thereby increasing total cost.
3. Increases the student's share of the cost of education over time as interest adds to total tuition, room and board, and other costs.
4. Contradicts traditional values on financing of higher education:
   - by "institutionalizing" a shift from grants to loans,
   - by recommending a shift from work-study to loans,
   - by overemphasizing education as a consumer investment or item of consumption, and
   - by underemphasizing education as a human resource investment.
5. Poses likely future burdens to students in an environment that is rapidly changing:

- Majority of new jobs are low paying;
- Economic advantage of most college graduates is diminishing in degree;
- Lack of control of consumer credit and uncertainty about the eventual impact of debt will create a setting for financial disaster;
- Increasing costs of education will increase borrowing and increase delinquency; and
- ICL contradicts a policy objective of the Tax Reform Act of 1986, which was to restrict borrowing by removal of tax deductibility of interest on consumer loans.

6. Emphasizes loan availability and repayment according to income contingency in a way that will influence policy makers to assume increased tuition is more acceptable.
7. Contradicts basic values of work and family. It:
   - weakens the value of work as a means to finance education while pursuing it,
   - weakens the value of family by reducing the ability to support one while using 15 percent of income for repayment, and
   - weakens the ability of parents to support their children in higher education if the retirment of student loans is extended during a time when children are of college age.
8. Poses threats to access by underrepresented groups. Because of their lower average incomes, the shift to loans will have a disproportionately negative impact on minorities and women.

American Association of
State Colleges and Universities
One Dupont Circle/Suite 700
Washington, DC 20036

Allan W. Ostar
President